

**REPORT OF THE AUDIT OF THE
HART COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HART COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Hart County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$89,588 from the beginning of the year, resulting in a cash surplus of \$1,372,952 as of June 30, 2002.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$3,475,000. Future collections of \$5,144,352 are needed over the next seventeen years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$36,600 as of June 30, 2002. Future principal and interest payments of \$38,231 are needed over the next two years to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
HART COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES	12
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE	17
NOTES TO FINANCIAL STATEMENTS	18
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE.....	29
SCHEDULE OF OPERATING REVENUE.....	33
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	37
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	41
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	45
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	49
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	53
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	54
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	
APPENDIX B:	
AUDIT REPORT OF THE HART COUNTY SOLID WASTE MANAGEMENT DISTRICT	
APPENDIX C:	
AUDIT REPORT OF THE HART COUNTY INDUSTRIAL AUTHORITY, INC.	



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Terry Shelton, Hart County Judge/Executive
Members of the Hart County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity balances arising from cash transactions of Hart County Kentucky as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Hart County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Hart County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Terry Shelton, Hart County Judge/Executive
Members of the Hart County Fiscal Court

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity balances of Hart County, Kentucky as of June 30, 2002, and its receipts and disbursements, and the cash flows of its proprietary fund type for the year then ended in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2003 on our consideration of Hart County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Hart County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 21, 2003

HART COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Terry Shelton	County Judge/Executive
Jim Stewart	Magistrate
Albert Hoover	Magistrate
Ronald Riordan	Magistrate
Franklin Turner	Magistrate
Don Kessinger	Magistrate

Other Elected Officials:

J. D. Craddock, III	County Attorney
Bill Cartmill	Jailer
Doris Crain	County Clerk
Conroy Harris	Circuit Court Clerk
Jeff Staples	Sheriff
Mary Beth Bunnell	Property Valuation Administrator
Doug Brooks	Coroner

Appointed Personnel:

Sue Gardner	County Treasurer
Rietta Osborne	Occupational Tax Collector
Donna Centers	Finance Officer
Gordon Ard	Road Supervisor
Sandy Cartmill	Jail Administrative Assistant

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

HART COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Type</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Enterprise</u>
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 1,332,120	\$ 5,819	\$ 510	\$ 38,587
Total Assets	\$ 1,332,120	\$ 5,819	\$ 510	\$ 38,587
<u>Other Resources</u>				
Amounts to Be Provided In Future Years for:				
Capital Lease	\$ 36,600	\$	\$	\$
Bonds			3,474,490	
Total Other Resources	\$ 36,600	\$ 0	\$ 3,474,490	\$ 0
Total Assets and Other Resources	<u>\$ 1,368,720</u>	<u>\$ 5,819</u>	<u>\$ 3,475,000</u>	<u>\$ 38,587</u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Totals
(Memorandum Only)
Primary
Government

\$ 1,377,036

\$ 1,377,036

\$ 36,600
3,474,490

\$ 3,511,090

\$ 4,888,126

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	Governmental Fund Types			Proprietary Fund Type
	General	Capital Projects	Debt Service	Enterprise
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Lease	\$ 36,600	\$	\$	\$
Bonds:				
Series 1998			3,475,000	
Payroll Liabilities	4,084			
Total Liabilities	<u>\$ 40,684</u>	<u>\$ 0</u>	<u>\$ 3,475,000</u>	<u>\$ 0</u>
<u>Equity</u>				
Retained Earnings:				
Reserved	\$	\$	\$	\$ 38,587
Fund Balances:				
Reserved		5,819		
Unreserved	1,328,036			
Total Equity	<u>\$ 1,328,036</u>	<u>\$ 5,819</u>	<u>\$ 0</u>	<u>\$ 38,587</u>
Total Liabilities and Equity	<u>\$ 1,368,720</u>	<u>\$ 5,819</u>	<u>\$ 3,475,000</u>	<u>\$ 38,587</u>

The accompanying notes are an integral part of the financial statements.
HART COUNTY

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Totals
(Memorandum Only)
Primary
Government

\$ 36,600

3,475,000

4,084

\$ 3,515,684

\$ 38,587

5,819

1,328,036

\$ 1,372,442

\$ 4,888,126

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

HART COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 4,657,313	\$ 2,799,625	\$ 352,465	\$ 1,262,507
Jail Canteen Receipts	203,489			
Other Financing Sources:				
Transfers In	2,158,881	188,488	914,588	750,000
Kentucky Advance Revenue Program	700,500	700,500		
Total Cash Receipts	<u>\$ 7,720,183</u>	<u>\$ 3,688,613</u>	<u>\$ 1,267,053</u>	<u>\$ 2,012,507</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 4,397,318	\$ 1,743,744	\$ 993,409	\$ 1,399,475
Jail Canteen Expenditures	208,884			
Other Financing Uses:				
Transfers Out	2,158,881	1,465,793	270,000	420,876
Bonds:				
Principal Paid	135,000			
Interest Paid	167,388			
Lease-Purchases Principal	41,800	20,900		
Kentucky Advance Revenue Program Repaid	700,500	700,500		
Total Cash Disbursements	<u>\$ 7,809,771</u>	<u>\$ 3,930,937</u>	<u>\$ 1,263,409</u>	<u>\$ 1,820,351</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (89,588)	\$ (242,324)	\$ 3,644	\$ 192,156
Cash Balance - July 1, 2001	<u>1,462,540</u>	<u>637,773</u>	<u>605,058</u>	<u>42,876</u>
Cash Balance - June 30, 2002	<u><u>\$ 1,372,952</u></u>	<u><u>\$ 395,449</u></u>	<u><u>\$ 608,702</u></u>	<u><u>\$ 235,032</u></u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Types			Capital Projects Fund Type	Debt Service Fund Type	Enterprise Fund Type
Local Government Economic Assistance Fund	911 Dispatch Fund	Tourist	Hart County Public Properties Corporation Fund	Hart County Public Properties Corporation Fund	Jail Canteen Fund
\$ 51,735	\$ 145,807	\$ 45,031	\$ 93	\$ 50	\$ 203,489
	1,205	2,212		302,388	
<u>\$ 51,735</u>	<u>\$ 147,012</u>	<u>\$ 47,243</u>	<u>\$ 93</u>	<u>\$ 302,438</u>	<u>\$ 203,489</u>
\$ 55,105	\$ 172,082	\$ 33,503	\$	\$	\$ 208,884
	2,212				
				135,000	
				167,388	
	20,900				
<u>\$ 55,105</u>	<u>\$ 195,194</u>	<u>\$ 33,503</u>	<u>\$ 0</u>	<u>\$ 302,388</u>	<u>\$ 208,884</u>
\$ (3,370)	\$ (48,182)	\$ 13,740	\$ 93	\$ 50	\$ (5,395)
49,738	76,927		5,726	460	43,982
<u>\$ 46,368</u>	<u>\$ 28,745</u>	<u>\$ 13,740</u>	<u>\$ 5,819</u>	<u>\$ 510</u>	<u>\$ 38,587</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

HART COUNTY
STATEMENT OF CASH
FLOWS-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Funds</u>
	<u>Jail Canteen Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Inmate Sales	\$ 70,718
Other Receipts	1,652
Payments to Suppliers	(60,250)
Other Payments	<u>(21,242)</u>
Net Cash (Used) by Operating Activities	<u>\$ (9,122)</u>
Cash Flows from Noncapital Financing Activities:	
Cash Held for Inmates	\$ 131,120
Cash Returned to Inmates	<u>(127,393)</u>
Net Cash Provided by Noncapital Financing Activities	<u>\$ 3,727</u>
Net Increase Decrease in Cash	\$ (5,395)
Cash and Cash Equivalents - Beginning	<u>43,982</u>
Cash and Cash Equivalents - Ending	<u>\$ 38,587</u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Hart County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Hart County Public Properties Corporation, Hart County 911 Emergency Telephone Service, Hart County Solid Waste Management District, and Hart County Industrial Authority, Inc. as part of the reporting entity.

Hart County Public Properties Corporation

The Hart County Public Properties Corporation is a legally separate entity established for the purpose of construction of the county jail building. Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's Board of Directors. The Corporation is fiscally dependent on Fiscal Court because Fiscal Court has the ability to approve or modify the Corporation's budget, modify or approve rate or fee changes, veto, overrule, or modify the decision of the Corporation's Board. Fiscal Court is financially accountable for the Corporation, legally entitled to the Corporation's resources, and legally obligated for the Corporation's debt. Financial information for the public Properties Corporation is blended within Hart County's financial statements.

Hart County 911 Emergency Telephone Service

The Hart County 911 Emergency Telephone Service (Service) is a legally separate entity established to provide, maintain, and operate 911 emergency services for the citizens of Hart County. Fiscal Court has the authority to appoint a voting majority of the Service's board. The Service is fiscally dependant on the Fiscal Court because the Fiscal Court sets and collects the fees for the Service. This fiscal dependency requires the Fiscal Court to include the Service as a component unit. Financial information for the Service is blended within Hart County's financial information.

Hart County Solid Waste Management District

Hart County Fiscal Court established the Hart County Solid Waste Management District (District) as a legally separate entity pursuant to KRS 67.083(3) and KRS 109.014(13) for the purpose of providing solid waste services for the residents of Hart County. Fiscal Court has the authority to appoint a voting majority of the District's board. The District is fiscally dependent on the Fiscal Court because the Fiscal Court is obligated for a capital lease of solid waste equipment. This fiscal dependency requires the Fiscal Court to include the District as a component unit. A copy of the audit report for fiscal year ended June 30, 2002 is presented under Appendix B.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Hart Count Industrial Authority, Inc.

The Hart County Industrial Authority, Inc. (Authority) is a legally separate entity established to promote industrial growth in Hart County. Fiscal Court has the authority to appoint a voting majority of the Authority's board. The Authority is fiscally dependent on the Fiscal Court because the Fiscal Court has authorized the County Judge Executive to cosign a bank note for the Industrial Authority, with the Fiscal Court acting as Guarantor. This fiscal dependency requires the Fiscal Court to include the Authority as a component unit. A copy of the audit report for fiscal year ended June 30, 2002 is presented under Appendix C.

Additional - Hart County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Hart County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Hart County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Hart County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, 911 Dispatch Fund, and Tourist Fund.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Hart County Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Hart County Public Properties Corporation Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

4) Proprietary Fund Type

The Proprietary Fund Type is an enterprise fund used to report an activity for which a fee is charged to external users for goods or services. The Hart County Proprietary Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Hart County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Hart County Public Properties Corporation because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

In addition, formal budgets are not adopted for the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc. The Department for Local Government does not require component units to be budgeted.

E. Cash and Investments

Cash and cash equivalents includes amounts in bank accounts and certificates of deposit. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Hart County Extension District is considered a related organization of Hart County Fiscal Court.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Long-Term Debt

The Hart County Public Properties Corporation, an independent corporate agency and instrumentality of Hart County, issued mortgage revenue bonds, series 1998, dated March 1, 1998, for the purpose of constructing a new detention facility. On March 1, 1998, \$3,865,000 of mortgage revenue bonds were issued at various interest rates. As of June 30, 2002, the principal balance outstanding was \$3,475,000. Debt service requirements are:

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long-Term Debt (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 161,785	\$ 140,000
2004	155,905	145,000
2005	149,743	155,000
2006	143,078	160,000
2007	136,118	165,000
2008-2012	561,268	955,000
2013-2017	319,215	1,190,000
2018-2019	42,750	565,000
Totals	<u>\$ 1,669,862</u>	<u>\$ 3,475,000</u>

Note 5. Lease Agreements

The county has entered into the following lease agreements:

- A. On September 9, 1997, the county entered into a lease agreement at a rate of 5.83% for voting machines. The balance as of June 30, 2002 was \$7,200. Future lease payment requirements are:

<u>Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2003	<u>\$ 210</u>	<u>\$ 7,200</u>

- B. On August 8, 1998, the county entered into a lease agreement at a rate of 5.1% for the upgrade of tower and dispatch equipment. The balance as of June 30, 2002 was \$29,400. Future lease payment requirements are:

<u>Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2003	\$ 1,229	\$ 21,900
June 30, 2004	<u>192</u>	<u>7,500</u>
Totals	<u>\$ 1,421</u>	<u>\$ 29,400</u>

Total lease principal payments due as of June 30, 2002 were \$36,600.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Commitments and Contingencies

A. Hart County Solid Waste Management District Capital Lease

On March 31, 1999, the Hart County Fiscal Court entered into a lease-purchase agreement with Kentucky Area Development Districts (KADD) Financing Trust for the \$350,000 purchase of solid waste equipment. These payments are to be made by the Hart County Solid Waste Management District (See Appendix C). As of June 30, 2002, the principal outstanding was \$205,600. The debt service requirements are:

<u>Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2003	\$ 9,022	\$ 50,200
June 30, 2004	6,650	52,600
June 30, 2005	4,166	55,000
June 30, 2006	1,567	47,800
Totals	<u>\$ 21,405</u>	<u>\$ 205,600</u>

B. Hart County Industrial Authority, Inc. Loans

- 1) On May 21, 1998, the Hart County Fiscal Court authorized Terry Shelton, County Judge Executive, to co-sign a note at the bank for the Hart County Industrial Authority, Inc., in the amount of \$480,000. This loan was issued July 1, 1997, at a variable interest rate for a year, but was renewed on July 1, 1998, July 1, 1999, July 1, 2000, July 1, 2001, and July 1, 2002. When the loan was renewed on July 1, 2002, the interest rate was variable. The Hart County Industrial Authority, Inc. is to make the loan payments.
- 2) On May 21, 1998, the Hart County Fiscal Court authorized Terry Shelton, County Judge Executive, to co-sign a note at the bank for the Hart County Industrial Authority, Inc., in the amount of \$246,100 for the spec building. The loan was issued June 1, 1998 at an interest rate of 7.5% for two years, but was renewed on June 5, 2000 at a variable interest rate. The Hart County Industrial Authority, Inc. is to make the loan payments.
- 3) On September 21, 2000, the Hart County Fiscal Court authorized Terry Shelton, County Judge Executive, to co-sign a note at the bank for the Hart County Industrial Authority, Inc., in the amount of \$275,000 to retrofit the spec building. This loan was issued November 22, 2000 at a variable interest rate for a year. The Hart County Industrial Authority, Inc. is to make the loan payments.

Note 7. Subsequent Events

- A. On August 1, 2002, Hart County Fiscal Court authorized Terry Shelton, Hart County Judge/Executive, to co-sign three notes with Pioneer Bank for the Hart County Industrial Authority, Inc. totaling \$761,000 (\$480,000, \$35,000, and \$246,000).

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 7. Subsequent Events (Continued)

- B. On September 5, 2002, the Hart County Fiscal Court authorized Terry Shelton, Hart County Judge/Executive, to sign a lease agreement with KACo for courthouse renovations in the amount of \$490,000.
- C. On November 21, 2002, the Hart County Fiscal Court agreed to apply for a Community Development Block Grant for economic development in the amount of \$1,000,000.
- D. On February 3, 2003, the Hart County Fiscal Court authorized Terry Shelton, Hart County Judge/Executive, to sign a lease agreement with KACo for courthouse renovations in the amount of \$157,616.

Note 8. Insurance

For the fiscal year ended June 30, 2002, Hart County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

HART COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 2,286,325	\$ 2,799,625	\$ 513,300
Road and Bridge Fund	922,500	352,465	(570,035)
Jail Fund	971,000	1,262,507	291,507
Local Government Economic Assistance Fund	40,700	51,735	11,035
911 Dispatch Fund	180,000	145,807	(34,193)
Tourist Fund	45,000	45,031	31
Totals	<u>\$ 4,445,525</u>	<u>\$ 4,657,170</u>	<u>\$ 211,645</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 4,445,525
Add: Budgeted Prior Year Surplus	937,430
Less: Other Financing Uses	<u>(135,000)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 5,247,955</u>

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF OPERATING REVENUE

HART COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Types	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 1,443,089	\$ 1,443,089	\$	\$
In Lieu Tax Payments	33,263	33,263		
Excess Fees	51,520	51,520		
Licenses and Permits	20,185	20,185		
Intergovernmental Revenues	2,905,645	2,905,645		
Charges for Services	45,950	45,950		
Miscellaneous Revenues	107,771	107,771		
Interest Earned	49,890	49,747	93	50
Total Operating Revenue	<u>\$ 4,657,313</u>	<u>\$ 4,657,170</u>	<u>\$ 93</u>	<u>\$ 50</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

HART COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,061,624	\$ 970,587	\$ 91,037
Protection to Persons and Property	1,483,694	1,436,259	47,435
General Health and Sanitation	146,523	145,278	1,245
Social Services	13,891	13,491	400
Recreation and Culture	547,681	438,462	109,219
Roads	1,060,121	908,424	151,697
Debt Service	168,000		168,000
Administration	766,421	485,288	281,133
Total Operating Budget - General Fund Types	\$ 5,247,955	\$ 4,397,789	\$ 850,166
Other Financing Uses:			
Borrowed Money			
Lease Principal	41,800	41,800	
Transfers to Hart County Public Properties Corporation Fund-			
Principal	135,000	135,000	
Interest	168,000	167,388	612
TOTAL BUDGET - GENERAL FUND TYPES	<u>\$ 5,592,755</u>	<u>\$ 4,741,977</u>	<u>\$ 850,778</u>

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Terry Shelton, Hart County Judge/Executive
Members of the Hart County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Hart County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated April 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hart County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 21, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Terry Shelton, Hart County Judge/Executive
Members of the Hart County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Hart County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Hart County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hart County's management. Our responsibility is to express an opinion on Hart County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hart County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Hart County's compliance with those requirements.

In our opinion, Hart County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Hart County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hart County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 21, 2003

FINDINGS AND QUESTIONED COSTS

HART COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Hart County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Hart County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Hart County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Hart County reported in Part C of this schedule.
7. The program tested as a major program was the Intermodal Surface Transportation Efficiency Act (ISTEA) project for the Munfordville Civil War Battlesite Preservation (CFDA #20.205).
8. The threshold for distinguishing Type A and B programs was \$298,219.
9. Hart County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS:

None.

NONCOMPLIANCES:

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT:

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HART COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>Federal Highway Administration</u>		
Passed-Through State Department of Transportation:		
Intermodal Surface Transportation Efficiency Act Grant (CFDA #20.205)	C-99016515	\$ 298,219
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
Coordinator Salary (CFDA #83.503)	N/A	<u>6,522</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 304,741</u></u>

HART COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hart County, Kentucky and is presented on a modified cash basis of accounting.

Note 2 - Intermodal Surface Transportation Efficiency Act - Major Federal Program

On March 17, 1998, the Hart County Fiscal Court entered into a grant agreement for the acquisition, protection and rehabilitation of various Battle for the Bridge Historic Preserve sites. The grant agreement provided for a federal award of \$515,000 and required 20% local matching funds (total project cost of \$643,750). The grant agreement also required that Fiscal Court was to pay all expenditures then submit appropriate information to the State Department of Transportation for reimbursement of eligible expenses.

On June 15, 2001, the Hart County Fiscal Court entered into an agreement with the Hart County Historical Society for administration of the program. This agreement stipulated that the Historical Society would provide administrative assistance in the management and oversight of the project through completion, and in the expenditure of federal funds in such a manner as to be in compliance with appropriate State and Federal regulations.

During fiscal year ended June 30, 2002, Hart County Fiscal Court received \$389,741 and expended \$298,219 under this program. OMB Circular A-133 defines a major federal program as one expending at least \$300,000 of federal funds within one fiscal year. However, if there are no federal programs meeting this condition, but total federal funds expended are at least \$300,000, those federal programs selected for testing under the 50% coverage rule are treated as major federal programs. Therefore, this program qualifies as a major federal program.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

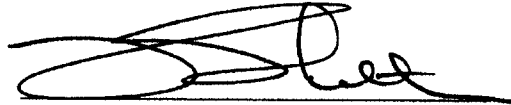
HART COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HART COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Hart County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT

For The Fiscal Year Ended
June 30, 2002

**HART COUNTY SOLID WASTE
MANAGEMENT DISTRICT**

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

Clauson, Mouser & Co., PSC

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH D. CLAUSON, CPA
SUSAN C. MOUSER, CPA

BONNIE M. ZOSCHAK, CPA
MELISSA S. MARTIN, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hart County Solid Waste Management District

We have audited the accompanying general purpose financial statements of Hart County Solid Waste Management District, a component unit of Hart County, Kentucky as of and for the year ended June 30, 2002 as listed in the table of contents. These general purpose financial statements are the responsibility of Hart County Solid Waste Management District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Hart County Solid Waste Management District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2002, on our consideration of Hart County Solid Waste Management District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Certified Public Accountants

August 16, 2002

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
BALANCE SHEET - PROPRIETARY FUND TYPE - ENTERPRISE FUND

JUNE 30, 2002

ASSETS AND OTHER DEBITS

Cash and cash equivalents	\$ 71,418
Accounts receivable, net	97,028
Restricted assets:	
Cash with fiscal agent	11,430
Fixed assets, net	<u>1,149,738</u>
 TOTAL ASSETS AND OTHER DEBITS	 <u><u>\$1,329,614</u></u>

LIABILITIES, FUND EQUITY AND OTHER CREDITS

LIABILITIES

Accounts payable	\$ 33,238
Payroll taxes payable	9,137
Retirement plan payable	531
Accrued wages	12,399
Accrued leave	4,015
Accrued interest	4,542
Leases payable	513,394
Notes payable	<u>684,539</u>
 TOTAL LIABILITIES	 1,261,795

FUND EQUITY AND OTHER CREDITS

Contributed capital	60,649
Retained earnings	<u>7,170</u>
 TOTAL FUND EQUITY AND OTHER CREDITS	 <u>67,819</u>

TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	<u><u>\$1,329,614</u></u>
--	---------------------------

See notes to financial statements.

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN

RETAINED EARNINGS - PROPRIETARY FUND TYPE - ENTERPRISE FUND

YEAR ENDED JUNE 30, 2002

OPERATING REVENUES

Charges for services	\$1,028,290
Other revenues	<u>19,382</u>

TOTAL OPERATING REVENUES	1,047,672
--------------------------	-----------

OPERATING EXPENSES

Landfill and disposal costs	237,458
Salaries and wages	275,476
Payroll taxes	27,583
Employee benefits	47,747
Depreciation	139,555
Fuel	49,314
Repairs, maintenance and supplies	137,218
Insurance	34,849
Office supplies and expenses	4,192
Postage and postal charges	4,904
Travel	4,692
Uniforms	3,848
Utilities and telephone	6,611
Professional fees	5,975
Taxes, licenses, permits and fees	7,615
Miscellaneous and other expenses	<u>9,791</u>

TOTAL OPERATING EXPENSES	<u>996,828</u>
--------------------------	----------------

OPERATING INCOME	50,844
------------------	--------

NON-OPERATING REVENUES (EXPENSES)

Interest earnings	3,969
Interest expense	(48,981)
Loss on disposal of fixed assets	<u>(881)</u>

NET NON-OPERATING EXPENSES	<u>(45,893)</u>
----------------------------	-----------------

NET INCOME	4,951
------------	-------

Depreciation transferred to contributions	<u>14,672</u>
---	---------------

INCREASE IN RETAINED EARNINGS	19,623
-------------------------------	--------

RETAINED DEFICIT - beginning	<u>(12,453)</u>
------------------------------	-----------------

RETAINED EARNINGS - ending	<u>\$ 7,170</u>
----------------------------	-----------------

See notes to financial statements.

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE - ENTERPRISE FUND
YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 50,844
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	139,555
Change in assets and liabilities:	
Decrease in accounts receivable	21,724
Decrease in accounts payable	(7,712)
Increase in payroll taxes payable	1,543
Decrease in retirement plan payable	(2,155)
Increase in accrued wages	457
Decrease in accrued leave	(893)
Total adjustments	152,519
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 203,363

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Principal payments on leases and notes	(201,870)
Interest paid on leases and notes	(47,100)
Purchase of fixed assets	(99,565)
Proceeds from long term debt	135,000
Proceeds from disposal of fixed assets	3,000
 NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	 (210,535)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on cash and cash equivalents	2,296
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 2,296
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (4,876)

CASH AND CASH EQUIVALENTS, beginning	76,294
CASH AND CASH EQUIVALENTS, ending	<u>\$ 71,418</u>

See notes to financial statements.

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction - Hart County Solid Waste Management District (District) was created pursuant to the provisions and procedures of KRS 109.041 (13) and KRS 67.083 (3); and is managed and operated by a Board of Directors which is appointed by the Hart County Judge Executive and confirmed by Hart County Fiscal Court. The District provides solid waste management services for residents of Hart County, including county-wide garbage pick-up, large dumpster pick-up, solid waste drop off facilities, metal recycling, composting and mulching.

The general purpose financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended June 30, 2002.

Financial Reporting Entity - The District is a component unit of Hart County, Kentucky. The accompanying general purpose financial statements include all funds controlled by the District.

Funds and Account Groups - The accounts of the District are organized into funds, each of which is considered to be a separate accounting entity. The only fund category is:

Proprietary Fund Types - Proprietary funds use the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings.

Basis of Accounting - The accrual basis of accounting is used in proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Fixed Assets - Purchased fixed assets are stated at historical cost where records are available and at an estimated cost where no records exist. Donated fixed assets are valued at their estimated fair market value on the date of donation.

Proprietary fund fixed assets are recorded in the respective fund and are depreciated using the straight line method. When proprietary fund fixed assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Estimated useful lives, in years, for depreciable assets are as follows:

Vehicles and computer equipment	5- 7
Furniture, fixtures, and equipment	7-10
Buildings and improvements	10-30

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets.

Long-Term Obligations - Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Compensated Absences - Accumulations for vacation leave are accrued dependent on years of services and provides vesting rights upon completion of one year of service. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - DEPOSITS

The District's deposits are categorized to give an indication of the level of risk assumed by the District at June 30, 2002. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Uncollateralized.

	Bank Balance	Category			Carrying Amount
		1	2	3	
Enterprise Fund	\$81,325	\$81,325	--	--	\$71,418

Additional cash information is presented in Note A.

NOTE C - RESTRICTED ASSETS

Restricted assets consist of cash equivalents held by fiscal agent, restricted for construction funded through long-term debt.

NOTE D - FIXED ASSETS

The following is a summary of changes in the proprietary fund type fixed assets at June 30, 2002:

	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002
Land	\$ 144,000	\$ --	\$ --	\$ 144,000
Buildings and improvements	14,819	98,742	--	113,561
Office equipment	10,615	161	--	10,776
Equipment and trucks	1,081,267	142,854	(4,500)	1,219,621
Less: accumulated depreciation	(199,284)	(139,555)	619	(338,220)
Net property and equipment	<u>\$1,051,417</u>	<u>\$102,202</u>	<u>\$(3,881)</u>	<u>\$1,149,738</u>

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

NOTE E - LEASE OBLIGATIONS

Capitalized lease obligations at June 30, 2002 consist of the following:

Lease purchase agreement payable to Government Leasing Company, secured by totes and containers recorded at \$42,285, dated March 28, 2000; payable in thirty six equal monthly installments of \$1,354 including interest. Final payment due in March, 2003.	\$ 11,688
Lease purchase agreement payable to Government Leasing Company, secured by a 1999 Chevrolet truck recorded at \$59,500, dated January 11, 2000; payable in forty eight equal monthly installments of \$1,488 including interest. Final payment due in January, 2004.	25,973
Lease payable to Kentucky Area Development District (KADD) Small Issuer Lease Program, dated March 31, 1999; payable on June 1 and December 1 in semi-annual payments of varying amounts of approximately \$29,600 including interest at 4.67%; issued for the purpose of purchasing solid waste equipment.	205,600
Lease payable to Kentucky Area Development District (KADD) Small Issuer Lease Program, dated May 31, 2001; payable in annual installments of \$15,000, due on June 1 and semi-annual installments of interest at 5% due on June 1 and December 1; issued for construction. Final payment due June, 2008.	90,000
Lease payable to Kentucky Area Development District (KADD) Small Issuer Lease Program, dated April 18, 2002; payable on April 20 and October 20 in semi-annual payments of varying amounts of approximately \$15,000 including interest at 5.03%; issued for the purpose of purchasing solid waste equipment.	135,000
Lease purchased agreement payable to First Source Bank, secured by a 11 yard garbage truck recorded at \$48,000, dated February 28, 2002; payable in sixty equal installments of \$894 including interest. Final payment due in February, 2007.	<u>45,133</u>
TOTAL CAPITALIZED LEASE OBLIGATIONS	<u>\$513,394</u>

NOTE F - NOTES PAYABLE

General obligation notes payable at June 30, 2002 consist of the following:

\$750,000 Kentucky Infrastructure Authority Assistance Agreement, dated January 1, 2000; payable on June 1 and December 1 in semi-annual installments of \$57,676 including interest at 2.0%; issued for the purpose of financing equipment purchases; secured by the system revenues of the District.	\$ 546,266
\$144,000 Hart County Industrial Authority, Inc., dated February 1, 2001; payable in one hundred and twenty equal monthly installments of \$1,500 including interest at 9.5%, plus twenty five percent of the net collected funds from any future recycling activities undertaken by the District; final payment of all principal and accrued interest due in June, 2011 in a balloon payment. Issued for the purchase of and secured by twenty acres of real property.	<u>138,273</u>
TOTAL NOTES PAYABLE	<u>\$ 684,539</u>

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

NOTE G - CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions in the proprietary fund type of the District for the year ended June 30, 2002.

Balance, July 1, 2001	\$1,216,803
Increases:	
Notes and lease agreement issued	183,000
Decreases:	
Principal payment of notes and leases	<u>(201,870)</u>
Balance, June 30, 2002	<u>\$1,197,933</u>

The annual requirements to amortize long-term debt outstanding as of June 30, 2002, including interest payments of \$206,907 are as follows:

Annual Requirements to Amortize Long-Term Debt
June 30, 2002

Year Ending <u>June 30</u>	<u>Notes Payable</u>
2003	223,944
2004	209,280
2005	205,051
2006	228,112
2007	193,765
2008-2012	<u>344,688</u>
	<u>\$1,404,840</u>

NOTE H - FUND EQUITY

Contributions - Proprietary fund adjustments to contributions for the fiscal year are as follows:

Contributed capital - July 1, 2001	\$ 75,321
Depreciation on assets contributed by Hart County	<u>(14,672)</u>
Contributed capital - June 30, 2002	<u>\$ 60,649</u>

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

NOTE I - NONMONETARY TRANSACTIONS

Non cash investing and financing transactions excluded from the statement of cash flows for the year ended June 30, 2002 consist of the acquisition of an 11 yard garbage truck valued at \$48,000 financed with a note payable to the seller. The truck and the corresponding obligation are included in the fixed assets and notes payable of the accompanying financial statements.

The District is building a transfer station, the cost of which was funded by loan proceeds held in escrow by a fiscal agent. Funds expended on the transfer station during the fiscal year ended June 30, 2002, totaled \$98,742. Costs in the amount of \$94,192 were paid directly to vendors by the fiscal agent; and, costs in the amount of \$4,550 were paid to vendors by the District, then transferred back to the District from the fiscal agent. The cost of the transfer station and corresponding reduction in cash held by fiscal agent are reflected in the fixed assets and restricted assets section of the accompanying financial statements.

NOTE J - RETIREMENT PLAN

The District participates in the County Employees Retirement System (CERS) pension plan (Plan). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the Kentucky Retirement System. The Plan provides for retirement, disability, and death benefits to Plan members. Retirement benefits may be extended to beneficiaries of Plan members under circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

CERS Plan members are required to contribute 5.0% of their annual creditable compensation and the District is required to contribute at an actuarially determined rate. The table below summarizes employer contribution rates and amounts contributed to the Plan for the year ended June 30, 2002 and the preceding two years.

Year Ended June 30	<u>Contribution Rate</u>		<u>Creditable</u>	<u>Employee</u>	<u>Employer</u>	<u>Total</u>
	<u>Employee</u>	<u>Employer</u>	<u>Compensation</u>	<u>Contribution</u>	<u>Contribution</u>	<u>Contribution</u>
2002	5.0%	6.41%	\$234,968	\$11,748	\$15,062	\$26,810
2001	5.0%	7.17%	246,571	12,281	17,726	30,007
2000	5.0%	7.17/7.28%	111,360	5,568	8,003	13,571

NOTE K - RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. The District purchases commercial insurance to mitigate the risk of loss to which the District is exposed in normal operations.

Clauson, Mouser & Co., PSC

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH D. CLAUSON, CPA
SUSAN C. MOUSER, CPA

**REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

BONNIE M. ZOSCHAK, CPA
MELISSA S. MARTIN, CPA

To the Board of Directors
Hart County Solid Waste Management District

We have audited the general purpose financial statements of Hart County Solid Waste Management District as of and for the year ended June 30, 2002, and have issued our report thereon dated August 16, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hart County Solid Waste Management District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County Solid Waste Management District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District, in a separate letter dated August 16, 2002.

This report is intended solely for the information and use of the Board of Directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

August 16, 2002

HART COUNTY INDUSTRIAL AUTHORITY, INC.

For The Fiscal Year Ended
June 30, 2002

**HART COUNTY INDUSTRIAL
AUTHORITY, INC.**

—

**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS**

YEARS ENDED JUNE 30, 2002 AND 2001

HART COUNTY INDUSTRIAL AUTHORITY, INC.

CONTENTS

YEARS ENDED JUNE 30, 2002 AND 2001

	Pages
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Balance Sheet - All Fund Types and Account Groups	2
Statement of Revenues, Expenditures and Changes in Fund Balances - All Fund Types	3
Notes to Financial Statements	4 - 6
COMPLIANCE AND INTERNAL CONTROL:	
Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	7

KENNETH D. CLAUSON, CPA
SUSAN C. MOUSER, CPA

BONNIE M. ZOSCHAK, CPA
MELISSA S. MARTIN, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hart County Industrial Authority, Inc.
Munfordville, Kentucky

We have audited the accompanying general purpose financial statements of Hart County Industrial Authority, Inc., a component unit of Hart County, Kentucky as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of Hart County Industrial Authority, Inc.'s management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Hart County Industrial Authority, Inc. as of June 30, 2002 and 2001, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2002 on our consideration of Hart County Industrial Authority, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Clauson, Mouser & Co., PSC

Certified Public Accountants

November 18, 2002

FINANCIAL STATEMENTS

June 30, 2001			
Governmental	Account Groups		Totals
Fund types	General	General	(Memo Only)
	Fixed	Long-Term	Reporting
General	Assets	Debt	Entity
\$ 479	\$ --	\$ --	\$ 479
--	2,002,107	--	2,002,107
<u>--</u>	<u>--</u>	<u>2,108,727</u>	<u>2,108,727</u>
<u>\$ 479</u>	<u>\$2,002,107</u>	<u>\$2,108,727</u>	<u>\$4,111,313</u>
\$ --	\$ --	\$2,108,727	\$2,108,727
--	--	2,108,727	2,108,727
--	2,002,107	--	2,002,107
<u>479</u>	<u>--</u>	<u>--</u>	<u>479</u>
<u>479</u>	<u>2,002,107</u>	<u>--</u>	<u>2,002,586</u>
<u>\$ 479</u>	<u>\$2,002,107</u>	<u>\$2,108,727</u>	<u>\$4,111,313</u>

HART COUNTY INDUSTRIAL AUTHORITY, INC.

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES**

ALL FUND TYPES

	Year ended June 30, 2002 Governmental Fund Type General	Year ended June 30, 2001 Governmental Fund Type General
REVENUES:		
Rental income	\$145,350	\$122,550
Intergovernmental revenue	--	10,000
Interest income	297	349
Other income	<u>2,313</u>	<u>1,168</u>
TOTAL REVENUES	147,960	134,067
EXPENDITURES:		
Commissions	17,560	12,405
Professional fees	7,247	1,360
Insurance	13,093	7,480
Utilities	656	1,030
Other expenses	2,848	805
Capital outlay	--	289,110
Debt service - principal	36,493	20,964
- interest	<u>99,838</u>	<u>114,184</u>
TOTAL EXPENDITURES	<u>177,735</u>	<u>447,338</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(29,775)	(313,271)
OTHER FINANCING SOURCES:		
Loan proceeds	46,836	297,689
Installment sale collections	<u>16,500</u>	<u>6,000</u>
TOTAL OTHER FINANCING SOURCES	<u>63,336</u>	<u>303,689</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	33,561	(9,582)
FUND BALANCE, beginning	<u>479</u>	<u>10,061</u>
FUND BALANCE, ending	<u>\$34,040</u>	<u>\$ 479</u>

See notes to financial statements.

HART COUNTY INDUSTRIAL AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2002 AND 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction - The Hart County Industrial Authority, Inc. (the Authority) was established by appointment of the Hart County Fiscal Court, in 1988 in accordance with KRS 154.50, for the purpose of promoting industrial development in Hart County, Kentucky. The authority was established, as a body politic and corporate, a non-profit, non-stock corporation.

The general purpose financial statements of Hart County Industrial Authority, Inc. are prepared in accordance with accounting principles generally accepted in the United States of America. The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Authority's financial activities for the fiscal years ended June 30, 2002 and 2001.

Financial Reporting Entity - The Authority is a component unit of Hart County, Kentucky. The accompanying general purpose financial statements include all funds and account groups controlled by the Authority.

Funds and Account Groups - The accounts of the Authority are organized into funds and account groups, each of which is considered to be a separate accounting entity. The major fund categories and account groups are:

Governmental Fund Types - Governmental funds use the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period.

Account Groups - The account groups are used to account for fixed assets and long term liabilities which are not reported in the respective government funds.

Total Columns - (Memo Only) - Total columns on the combined statements are captioned "memo only" to indicate that they are presented only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of this data; and it is, therefore, not comparable to a consolidation.

Basis of Accounting - The Authority uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available". Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred.

Cash and Cash Equivalents - The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property and Improvements - Purchased property and improvements are stated at historical cost where records are available and at an estimated cost where no records exist. Governmental fund fixed assets are not capitalized. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. The related assets are reported in the General Fixed Asset Account Group and are not depreciated.

Interest Costs - Interest costs on debt for which proceeds are used to finance the construction of assets are not capitalized.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - DEPOSITS

Deposits (cash and cash equivalents) are carried at cost which approximates market value. As of June 30, 2002 and 2001, the carrying amount of the Authority's deposits were \$34,040 and \$479 respectively. The bank balances were also \$34,040 and \$479 respectively. Federal depository insurance secures the bank balances.

HART COUNTY INDUSTRIAL AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2002 AND 2001

NOTE C - FIXED ASSETS

A summary of changes in the general fixed assets account group at June 30, 2002 and 2001 is as follows:

	<u>Land, buildings and improvements</u>
Balance 7/1/00	\$1,786,846
Additions	289,110
Deletions	<u>(73,849) (1)</u>
Balance 6/30/01	2,002,107
Additions	--
Deletions	<u>--</u>
Balance 06/30/02	<u>\$2,002,107</u>

(1) Real estate consisting of approximately 20 undeveloped acres was sold in February, 2001 to Hart County Solid Waste Management District for \$144,000, to be paid in monthly installments of \$1,500 for ten years with remaining principal due and payable in 2011. Current year collections in the amount of \$16,500, consisted of \$4,254 principal and \$12,246 interest. The unpaid principal balance at June 30, 2002 was \$138,273.

NOTE D - NOTES PAYABLE

Notes payable at June 30 consist of the following:

	<u>June 30 2002</u>	<u>June 30 2001</u>
Note payable to Kentucky Economic Development Finance Authority, secured by letters of credit, dated May 21, 1999; maturing May 21, 2004. Principal payable in full at maturity or upon sale of a corresponding Project Site, whichever occurs first. Interest is payable quarterly at the annual rate of 2.00%.	\$ 500,000	\$ 500,000
Note payable to Kentucky Utilities, unsecured, dated May 12, 1998. The note is non-interest bearing and is payable upon demand.	80,000	80,000
Note payable to Kentucky Banking Centers, Inc., dated April 19, 1999, renewable annually, secured by real estate. Principal payable in full upon sale of the corresponding Project Site. Interest is variable and is payable annually.	513,591	513,591
Notes payable to Pioneer Bank are as follows:		
Note dated June 1, 1998, unsecured, renewable bi-annually. Interest is variable and is payable monthly.	246,100	246,100
Note dated June 1, 1999, secured by real estate, renewable annually. Interest is variable and is payable annually.	480,000	480,000
Notes dated May 11, 2000, and July, 28, 2000, unsecured and due annually. Interest is variable and is payable monthly.	35,000	35,000
Note dated October 1, 2000, unsecured and due annually. Payable in monthly installments of \$5,550 including interest at 5.325%.	--	254,036
Note dated July 27, 2001, unsecured and due annually. Payable in monthly installments of \$4,314, including interest at 5.738%.	<u>264,379</u>	<u>--</u>
TOTAL NOTES PAYABLE	<u>\$2,119,070</u>	<u>\$2,108,727</u>

HART COUNTY INDUSTRIAL AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2002 AND 2001

NOTE E - CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the General Long-Term Debt Account Group for the years ended June 30, 2002 and 2001:

Balance, July 1, 2000	\$1,832,002
Increases:	
Notes payable issued	297,689
Decreases:	
Debt Service-Principle Payments	<u>(20,964)</u>
Balance, June 30, 2001	2,108,727
Increases:	
Notes payable issued	46,836
Decreases:	
Debt service-principal payments	<u>(36,493)</u>
Balance, June 30, 2002	<u>\$2,119,070</u>

The annual requirements to amortize long-term debt outstanding as of June 30, 2002 and 2001, including interest payments of \$99,778 and \$154,770 respectively, are as follows:

<u>Annual Requirements to Amortize Long-Term Debt</u>			
<u>June 30, 2002</u>		<u>June 30, 2001</u>	
<u>Year ending</u> <u>June 30</u>	<u>General Long Term</u> <u>Account Group</u> <u>Notes Payable</u>	<u>Year ending</u> <u>June 30</u>	<u>General Long Term</u> <u>Account Group</u> <u>Notes Payable</u>
2003	\$1,390,245	2002	\$1,525,493
2004	<u>828,603</u>	2003	76,600
		2004	576,600
		2005	66,600
		2006	<u>18,204</u>
	<u>\$2,218,848</u>		<u>\$2,263,497</u>

NOTE F - RISK MANAGEMENT

The Authority is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, errors and omissions, fiduciary responsibilities, etc. The Authority purchases commercial insurance to mitigate the risk of loss to which the Authority is exposed in normal operations.

COMPLIANCE AND INTERNAL CONTROL

Clauson, Mouser & Co., PSC

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH D. CLAUSON, CPA
SUSAN C. MOUSER, CPA

BONNIE M. ZOSCHAK, CPA
MELISSA S. MARTIN, CPA

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Hart County Industrial Authority, Inc.
Munfordville, Kentucky

We have audited the general purpose financial statements of Hart County Industrial Authority, Inc., as of and for the year ended June 30, 2002 and 2001, and have issued our report thereon dated November 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hart County Industrial Authority, Inc.'s general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County Industrial Authority, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hart County Industrial Authority, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions noted are described as follows:

Due to the limited number of financial personnel at Hart County Industrial Authority, Inc., several functions which ideally should be performed by different individuals, are regularly performed by the same individual. Such functions include making bank deposits, issuing checks, preparing the bank reconciliations, and recording of transactions. It may be impractical to overcome this weakness. However, management should be aware of the situation and attempt, when possible, to have individuals independent of these functions review monthly bank reconciliations and transaction reports. Such measures would not in themselves correct the situation but would possibly mitigate to a certain extent the potential exposure.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Hart County Industrial Authority, Inc., in a separate letter dated November 18, 2002.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

November 18, 2002